



International Forum “Financing Energy Efficiency in the Commonwealth of Independent States”

«Energy Efficiency Policy in Ukraine. Experience in Financing International Investment Projects»

Consumption of Fuel and Energy Resources

Annually, Ukraine consumes about 210 million tons (conventional fuel) of fuel and energy resources and is referred to the countries that suffer from power shortages, because it covers its needs of energy consumption to approximately 53% and imports 75% of the needed amount of natural gas, as well as 85% of crude oil and oil products. Such system is not economically feasible, it makes Ukraine dependent on countries that export oil and gas and undermines Ukraine's energy and national security.

Ukraine, with a view of realizing the energy efficiency potential:

- approved Ukraine's Energy Strategy till 2030,**
- approved the "Comprehensive State Energy Saving Program",**
- adopted the "Program of State Support to Development of Non-Traditional and Renewable Energy Sources",**
- same programs have been developed in each sphere,**
- branch energy saving programs are being carried out.**

Indicators of Energy Efficiency Potential

In 2005 there have been saved 65.7 million tons of conventional fuel, and in the year 2010 the rated energy resources saving will make up 77.7-93.3 million tons of conventional fuel, in the 2015 – 108.0 million tons of conventional fuel. Capital expenses for implementation of measures will have to make up in the year 2010 - 46.5-52.7 billion UKH, in the year 2015 – 52.4 – 64.8 billion UKH (actually, in the year 2005 – 36.5 billion UKH).

National Program “Ukraine’s Oil and Gas by 2010”

The National Program “Ukraine’s Oil and Gas by 2010” declares the key task in provision of the country’s energy security – maximal provision of the state’s need in oil and gas at the account of Ukraine’s own production. In Ukraine, there have been explored significant gas reserves, and it is really possible to increase gas production to 28 billion m³ by the year 2010.

Shortage of Carbon-Bearing Types of Fuel

In 2006, the worldwide shortage of carbon-bearing types of fuel burst, and Ukraine will not be able to avoid it. Prices for oil and gas will be increasing during not less than two decades, and the peak of this increase will be in 2012-2015, analysts believe.

It means that we will face multiple tariff increase for heat and electric energy in the next 5-8 years.

International Project “Energy Saving”

Within the framework of this project, it is envisaged to modernize 1300 municipal buildings in Kiev, among which: kindergartens, schools, boarding schools, polyclinics, museums.

In compliance with the agreement, the World Bank provided the Government of Ukraine a loan of 16.29 million USD, 18-years repayment term, including a 6-year grace period. Besides that, the Government of Sweden offered a grant of 2 million USD. The Ukrainian party, in the person of Kiev Municipal State Administration, invested 10 million USD in this project.

Energy Costs Reduction Projects

In the coming years, energy costs reduction projects, which reduce costs by 2 to 4 times as compared to the extent ones and with a payback period of 5 to 8 years will become popular.

The inevitable increase of tariffs cuts on the payback of investments by several times. It allows to guarantee rather attractive project features to investors, including international financing organizations. In terms of financial flows, energy efficiency business leaps from the last to the first row among the programs for development of Ukraine's cities.

Three Main Avenues of Municipal Energy Saving

One can highlight three main avenues of municipal energy saving, which are priority-oriented for Ukraine nowadays:

- ❑ direct energy costs reduction,**
- ❑ increase of natural gas consumption ratio,**
- ❑ replacement of natural gas by local sources of fuel and energy.**

Budgetary Policy – it is necessary to sharply increase the share of budgetary subsidies for energy saving on a long-term and program-like basis; at that, the utmost priority should be given to co-financing schemes (in which local budget funds initiate, by their participation, attraction of external investments and increase the investment attractiveness of the projects), rather than to the direct financing schemes.

Tariff Policy – it is necessary to include the investment component (not less than 10-15%) into the tariff structure. This will allow to already nowadays attract credit resources, without the overall increase of prices for energy products, for financing of energy efficiency projects on a revolving basis.

Energy Policy – it is necessary to set aside the conservative policy, which is based on repair and rehabilitation of obsolete fixed assets.

It is necessary to solve the issues at the legislative level:

- incentives to energy saving in Ukraine's budgetary sphere.**
- (budgetary support to projects, guarantee to investors and banks, division of the factual savings between the projects' participants on the 10-years-basis).**
- incentives to energy saving in Ukraine's housing and communal service.**
- (Investment component, guarantee to investors and banks, division of the factual savings between the projects' participants on multi-year basis. Introduction of performance-based contracting, as the main financing scheme).**
- thermal reconstruction of buildings.**
- (long-term state credit support to projects aiming at owners of buildings, payment of loan interests from the budget, co-financing of projects with the municipal budget support).**
- certification of energy-consuming equipment in the housing and communal services.**